DOCUMENT RESUME

ED 370 287 EC 303 018

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TITLE State Funding Provisions and Least Restrictive Environment: Implications for Federal Policy. Brief No. 2.
INSTITUTION American Institutes for Research in the Behavioral Sciences, Palo Alto, CA. Center for Special Education Finance.
SPONS AGENCY Special Education Programs (ED/OSERS), Washington, DC.
PUB DATE 93
CONTRACT H159G20002
NOTE 5p.
PUB TYPE Information Analyses (070)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Compliance (Legal); Delivery Systems; *Disabilities; *Educational Economics; Elementary Secondary Education; Federal Regulation; Federal State Relationship; Financial Support; Government Role; Mainstreaming; *Policy Analysis; Policy Formation; Resource Allocation; *State Aid; *State School District Relationship; *Student Placement

ABSTRACT

This policy brief discusses how certain types of state funding provisions create fiscal incentives for more restrictive placements for students with disabilities. This most likely occurs when funding systems are tied to the location in which the services are provided and a more restrictive placement will generate more state aid in relation to local costs than its less restrictive alternative. Because such incentives run counter to federal regulations, federal action to promote more placement-neutral funding systems may be warranted. The pros and cons of several federal policy options are considered. These options include: (1) making no change in federal funding policy, since many states are attempting to make appropriate changes to their funding formulas; (2) requiring state funding provisions that are placement neutral as a prerequisite to receiving federal funds; (3) providing education and assistance; and (4) unifying the federal position. The paper concludes that the most effective federal policy may be to provide education and technical assistance to the states to help them adopt and implement funding provisions that are consonant with overall federal and state policy goals. (DB)

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Center for Special Education Finance

Brief No. 2 • Fall 1993

State Funding Provisions and Least Restrictive Environment: Implications for Federal Policy

by Thomas B. Parrish, Co-Director, CSEF

Abstract

This policy brief discusses how certain types of state funding provisions create fiscal incentives for more restrictive placements. Because such incentives run counter to federal regulations, federal action to promote more placement neutral funding systems may be warranted. The author discusses the pros and cons of several federal policy options.

Issues relating to *where* special education students are best served have become a major focus of virtually all discussions pertaining to best practice and reform in special education. Federal policy under the Individuals with Disabilities Education Act (IDEA) has always required that special education services be provided to students "in the least restrictive environment." However, concerns are increasingly expressed that special education services are being offered under a dual system of service provision. For example, in a recent evaluation of the restrictiveness of placements in the states, the Arc (formerly the Association for Retarded Citizens) gave failing grades to all but eight states (Davis, 1992). *Winners All*, a position paper prepared by the National Association of State Boards of Education (NASBE, 1992), calls for "a new belief system and vision for education in the states that includes ALL students."

Some educators argue that "all means all": that *all* students should have the right to be educated with nondisabled students in regular classrooms in neighborhood schools. Others are more likely to point to the federal requirement to have a range of placement options available to special education students. However, very few policymakers see these two positions as mutually exclusive. The issue seems to be the relative balance between these two principles. Federal law requires "That special classes, separate schooling or other removal of handicapped children from the regular educational environment occur only when the nature or severity of the handicap is such that education in regular classes with the use of supplementary aids and services cannot be achieved satisfactorily" (Section 300.550 of Title 34, *Code of Federal Regulations*). The debate seems to center around the exact circumstances under which any type of separation is warranted.

Do certain types of state funding provisions create incentives for more restrictive placements?

Over the past several years, changes in special education placement trends have occurred, which have been variously referred to as "inclusion," "integration," or "mainstreaming." These trends include movement from residential to day care placements, private to public schools, special education schools to neighborhood schools, and from special education to regular education classrooms.

Recently, proponents of greater integration have become more proactive on behalf of what is often referred to as the inclusion movement. However, most provisions for state special education funding were developed prior to this enhanced focus on inclusion. Consequently, questions have arisen about the relationship of these provisions to the promotion of inclusionary practices. There is increasing concern that certain state funding provisions may indeed produce *incentives* for providing *more restrictive* services, and that in some instances more integrated service models may not even qualify for supplemental state special education aid.

Specifically, the questions to be addressed in this policy brief are whether certain types of state funding formulas create incentives for more restrictive placements; and if yes, should the federal government attempt to remediate this situation in some manner?

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"...with [Vermont's] funding change, resistance to the greater integration of special education students 'seemed to melt away.'"

All special education funding systems contain some types of placement incentives, and some reward more restrictive placements. This pattern was documented in Tennessee by Dempsey and Fuchs (1993), who tracked special education placement patterns before and after state finance reform. Dennis Kane, the state special education director in Vermont, cites years of slow progress in reducing the restrictiveness of placement patterns. However, in 1988, Vermont's funding formula was changed to become more placement neutral. The new system is primarily reliant on a block grant, and allows local decisionmakers more discretion in the use of special education funds. Kane reports that with this funding change, resistance to the greater integration of special education students "seemed to melt away."

There appears to be no evidence that states are designing their funding formulas in order to foster more restrictive placements. Rather, these types of incentives appear to be artifacts of funding systems that were much more focused on other finance issues, such as the adequacy and equity of funding and the ability to track and audit federal funds. In fact, in phone interviews recently conducted by CSEF, a number of state directors of special education indicated that the desire to promote greater integration has been a major impetus to their reform efforts. Many states are recognizing that state formulas may be fostering restrictive placements, and are actively engaged in attempting to correct this problem.

What form do incentives for restrictive placements take?

Incentives for restrictive placement are most likely to be found in funding systems that are tied to the location in which the services are provided. This type of incentive will occur any time that a more restrictive placement will generate more state aid *in relation to local costs* than its less restrictive alternative. For example, Parrish (1987) found that many districts in California faced incentives to place severely emotionally disturbed students in private settings. Even though comparable services could have been provided at less cost within the public system, a dual funding system for publicly and privately provided services encouraged districts to use the more expensive private placements. Similar trends in other states have also been observed by Sage and Guarino (1974), Feldman (1984), Lay (1977), and Bloom and Garfunkel (1981).

Similar types of incentives can occur for alternative types of placements entirely within the public system. For example, if a district will receive full state support for placing a child in a high cost and more restrictive setting, but only partial or no support for a less restrictive placement, the cost to the district is minimized through the high cost placement.

Dual funding systems for special education instructional and transportation services may create disincentives to relocate special education students to their neighborhood schools. For example, it may cost more to provide comparable educational services to a student with disabilities in the neighborhood school than in a school that is already fully equipped to meet the special needs of this student. However, the cost of transporting students to these special schools may also be considerable. In certain instances, the savings in transportation will more than offset the increased cost of relocating the student. However, this cost savings may not be transferred to the district in cases of split funding. When special education transportation services are not provided, this source of state funds will be lost to the district, even though a move could create net savings and result in less restrictive services for the student. This type of incentive was positively used by the special education director of the Boston Public Schools. He reported success in moving special education students back to their neighborhood schools by offering the resulting transportation savings to local principals as an incentive.

How can state funding formulas be made more placement neutral?

There is no simple answer to this question that will work well in all states. As an example, however, federal special education funding under IDEA is said to be "placement neutral" because it provides flat-grant funding that is simply based on the number of students identified as special education up to a funding cap of 12 percent. Oregon also has a form of flat grant. All special education students receive twice the funding of regular education students, regardless of where they are placed or the types of services they receive. Pennsylvania and Vermont primarily fund special education services based on

total district enrollment. These types of funding formulas generally do not contain incentives for more restrictive placements.

In addition, some states grant local districts a great deal of flexibility in placement by not requiring that special education funds be spent on special education students. This can foster such inclusionary practices as team teaching by special and regular education teachers to provide services to entire classes of students.

A number of special education directors are critical of federal funding policy under IDEA because it does not foster this type of flexibility in providing services. Students with special needs who are not identified and labelled as special education are not eligible for this source of federal support.

True incentives for more restrictive placement only occur when, for whatever reason, the cost of service *borne by the district* is *greater* in *less* restrictive placements. Theoretically, this could occur under any type of funding system. However, funding systems based on the location in which the services are provided are most likely to contain incentives for more restrictive placements.

Conversely, under some of the newly developed funding systems, as found in Oregon, Pennsylvania, and Vermont, incentives may be created for less costly placements. This may be beneficial if these lower cost services are less restrictive and remain sufficient to meet the needs of the student. However, some educators have expressed concerns that the movement toward less restrictive placements may lead to insufficient services for students with special needs. Some argue that placement in regular classrooms, without appropriate levels of funding that will ensure adequate support mechanisms, may become more restrictive for students with special needs.

What are the federal policy options?

Noting that prior federal policy regarding the need for greater integration has often been ambiguous, some state and local policymakers question federal resolve on this issue. However, the federal interest seems clear. Statutory language from IDEA [Section 614(a)(1)(C)(iv)] requires the states to have

> "established procedures to assure that, to the maximum extent appropriate, children with disabilities... are educated with children who are not disabled, and that special classes, separate schooling, or other removal of children with disabilities from the regular educational environment occurs only when the nature or severity of the disability is such that education in regular classes with the use of supplementary aids and services cannot be achieved satisfactorily..."

Therefore, state funding policy containing incentives for more restrictive placements clearly conflicts with federal policy. What options, then, are available to the federal government for promoting alternative forms of state fiscal policy?

- **Make no change in federal funding policy, since many states are currently attempting to make appropriate changes to their funding formulas.** As reported above, many state and local special education directors are actively working for funding reform in order to remove incentives that reward more restrictive placements. However, they seem to be facing some important problems. First, while the relationship between funding provisions and inclusion will be clear to some state policymakers, considerable education may be needed for others. Second, even when this relationship is clear, many will have more limited inclusionary goals and may not see the current state funding formula as a problem. Third, even those who recognize it as a problem may not know exactly what to do about it. Additional difficulties will be incurred when this policy goal conflicts with other goals for state funding policy such as equity, adequacy, and accountability.

> *"Federal policy regarding the need for an increased emphasis on providing services in integrated settings often appears unclear to state and local policymakers."*

- **Require state funding provisions that are placement neutral as a prerequisite to receiving federal funds.** This approach is likely to be fraught with difficulties. Although it is not clear exactly what form an ideal state special education funding approach should take, the removal of incentives for restrictive placements clearly should be one component. But other competing concerns could result in some very complex negotiations with states over the exact nature of these incentives and the extent to which they exist. The federal government could become embroiled in a regulatory nightmare. In attempting to affect this type of state reform, it seems likely that the "carrot" will be much more effective than the "stick."
- **Provide education and assistance.** The "carrot" most likely to lead states to change would seem to come in the form of research, education, evaluation, training, technical assistance, and the dissemination of information. CSEF interviews convey the clear impression that many states are cur-

rently in a position to make meaningful changes in the way they fund special education, but are not exactly sure what to do differently. States need assistance in assuring that the old provisions are not simply replaced with a new set of problems. They also need help in their efforts to collaboratively learn from each other.

■ **Unify the federal position.**

The statutory language in IDEA refers to inclusionary concepts and to the need for a continuum of services. However, federal policy regarding the need for an increased emphasis on providing services in integrated settings often appears unclear to state and local policymakers. Many argue that state policy overall appears to be ahead of the federal government on many of these issues. Clear federal policies that suggest how states should behave may be more effective in the long run than increased federal mandates. The lack of full funding for IDEA and the lack of clarity at the federal level on many of these issues remain sore points with the states. Federal policy may be more likely to affect local policy by the example it sets than by any other mechanism at its disposal.

Conclusion

The fiscal incentives to serve students in restrictive settings must be eliminated if the integration of special education students is to be fostered in the states. However, it is not clear that a single type of formula will be ideal for all states or that additional federal requirements will solve this problem. State policies that discourage more costly, restrictive placements may in fact encourage less costly, and in some cases inadequate, levels of service. In addition to concerns about the adequacy of services, provisions for placement neutrality may also conflict with other special education fiscal policy goals such as equity and accountability. The most effective federal policy may be to provide education and technical assistance to the states to help them to adopt and implement funding provisions that are consonant with overall federal and state policy goals.

CSEF Briefs will be published periodically by the Center for Special Education Finance (CSEF) at the American Institutes for Research (AIR) in Palo Alto, CA. CSEF is funded by the Office of Special Education Programs (OSEP), U.S. Department of Education, under a five-year cooperative agreement #H159G20002. The opinions expressed in this brief are those of CSEF and do not necessarily reflect the views of the U.S. Department of Education or our network of advisors and professional organizations. Feel free to photocopy and distribute this brief.

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